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The Baucus Trade Program

Max S. Baucus

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(1) Subject*: **Trade**

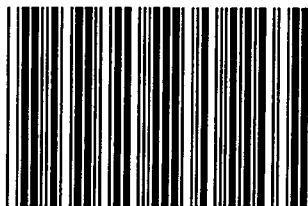
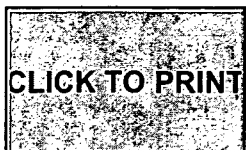
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(2) Subject* **The Baucus Trade Program**

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BAUCUS

Ref

I. BACKGROUND: THE IMPORTANCE OF INTERNATIONAL TRADE

Until recently, international trade was relatively unimportant to American businesses. Our vast, expanding economy provided an ample domestic market.

But now that's changed. New transportation and communications technology have made international markets more accessible. And many nations are competing hungrily for export markets in order to keep their economies growing.

As a result, international trade has become very important. For example,

- The overall value of free-world exports increased from \$281.8 billion in 1970 to \$1,793.8 billion in 1981.
- The value of U.S. manufactured imports increased from 4.1% of GNP in 1970 to 8.9% of GNP in 1981.
- The value of U.S. manufactured exports increased from 4.3% of GNP in 1970 to 7.8% of GNP in 1981.
- Exports for some agricultural products quadrupled from 1970 to 1981. Now, America exports:
 - 60% of our wheat;
 - 42% of our soybeans;
 - 22% of our timber products.

This sudden increase in the volume and importance of international trade has strained the existing legal and business structures.

- The legal structure, designed at a time when America dominated a small, stable international trading system, is outdated. International laws like GATT are loophole-ridden and feebly enforced. U.S. laws like the Export Administration Act and the Foreign Corrupt Practices Act are unwieldy and place U.S. businesses at a competitive disadvantage.
- The business structure, designed for an open domestic market, also is outdated. American companies are used to selling to American consumers and competing against other companies who play by the same rules. Now, they must sell to foreign consumers, which requires sophisticated international transactions. And they must compete against foreign cartels and government-controlled companies that do not play by the same rules.

As a result, American businesses are falling behind: our share of world exports has declined from 12% in 1970 to 8% now.

II. THE BAUCUS PROGRAM

The underlying objective of American trade policy should continue to be free trade -- free trade maximizes worldwide efficiency, increases worldwide employment, and lowers worldwide prices. But we cannot achieve free trade unilaterally; if only America plays by the rules, we'll continue to lose sales to those who don't. But neither can we achieve free trade by erecting our own trade barriers and refusing to dismantle them until other nations dismantle theirs; such massive retaliation could spark a trade war and undermine the entire international trading system.

Rather, we can achieve free trade only by pursuing a moderate program of strengthening international trade laws and aggressively competing for new export markets. Therefore, the Baucus program stresses fair trade and aggressive competition.

A. Fair Trade

To achieve fair trade, we must reform the exchange rate system, reform trade laws, engage in measured retaliation, and reform aid programs.

1. Reforming The Exchange Rate System

The exchange rate is critical to trade. An overvalued dollar makes U.S. exports more expensive, and hence less competitive, overseas. Recent studies indicate that exchange rates have been manipulated; for example, the Japanese may have deliberately undervalued the yen to increase exports and decrease imports. To prevent further manipulation, the Baucus program includes two reforms:

- There must be a negotiated revision of the international monetary system to reestablish stable exchange rates.
- In the meantime, the Federal Reserve Act must be amended to require the Fed to specifically consider exchange rates when it sets national monetary policy.

2. Reforming Trade Laws

The "General Agreement on Tariffs and Trade," or "GATT," was supposed to establish rules for fair international trade. It has, however, fallen short; countless unfair import barriers and subsidies persist. For example, the Japanese have erected barriers against beef and citrus imports and the European Community heavily subsidizes wheat flour and pasta exports. To eliminate such practices, the Baucus program calls for new international negotiations to eliminate loopholes in GATT. In the meantime, the Baucus Program calls for several moderate changes to tighten U.S. trade laws:

- amending the antitrust laws to permit antitrust suits against foreign companies that "dump" their products in U.S. markets;
- amending the Trade Act to increase the President's authority to retaliate against unfair foreign trade practices;

- amending the Trade Act to clarify that U.S. industries are protected against subsidized imports that are a material cause of injury; and
- amending the Trade Act to assure that small businesses have access to relief against unfair competition.

3. Engaging in Measured Retaliation

Our competitors continue to engage in unfair competition. In some cases, they do so by capitalizing on GATT loopholes. In other cases, they simply ignore GATT. In either case, we cannot always respond by merely demanding negotiations. Sometimes we must retaliate. Not by threatening to erect massive trade barriers that could lead to an all-out trade war, but instead by "fighting fire with fire" and taking measured retaliation against unfair foreign competition. Therefore, the Baucus program calls for continued actions like the subsidized sale of wheat flour to Egypt and the proposed "Export PIK" program. Such measured retaliation should focus on the primary offenders: Japan and the EC.

4. Limiting Foreign Aid Programs

The U.S. operates several trade-related foreign-aid programs designed to help developing countries. Unfortunately, some of these ~~proposals~~^{programs} have become dominated by a few countries that have developed to the point that they are competing aggressively all over the world. For example, most benefits from America's "Generalized System of Preferences," or "GSP," which permits low-tariff imports, have gone to Taiwan, Korea, Hong Kong, and Brazil—all highly competitive international traders. To prevent this, the Baucus program calls for changes in such programs:

--The GSP should be modified to "graduate" countries like Taiwan, Korea, Hong Kong, and Brazil, which have developed enough to be treated on the same basis as ordinary developed nations. That way, these countries will compete fairly with the U.S.

--Other U.S. trade-related aid programs, such as Export-Import financing, should be denied to countries that continually engage in unfair international trade.

B. Aggressive Competition

America has been spoiled. For many years, the vast domestic economy provided a safe and ample market for American products. But now that market has been invaded; as we attempt to develop our own export markets, we find ourselves up against competitors far more aggressive and sophisticated than we are. In this situation, old programs won't work. We need a new, "lean and mean" trade-promotion program. To develop one, we must dismantle government export barriers,

improve export incentives, and facilitate adjustment.

1. Dismantling export barriers

Many U.S. laws and regulations give little consideration to their effect on U.S. export competitiveness. The Baucus program calls for revisions in these laws. For example:

- The Export Administration Act should be revised to eliminate unnecessary bureaucratic burdens.
- The Foreign Corrupt Practices Act should be revised to clarify its interpretation and eliminate unnecessary bureaucratic burdens.
- The antitrust laws should be revised to clarify their application to exports. (Last year's "Export Trading Company Act" was a good start in that direction.)
- U.S. tax laws should be reviewed to determine whether they discourage U.S. international operations.

2. Promoting Exports

The U.S. government exhibits indifference, at best, to the export activities of U.S. businesses. This must change. Therefore, the Baucus program calls for the government to play an active role promoting exports. This includes:

- Reorganizing government trade efforts.
Currently, responsibility for trade policy is scattered throughout many agencies and offices. These should be reorganized so that trade policy can be coordinated. Therefore, a cabinet-level Department of Trade should be established.
- Providing tax incentives for exports.
Our trade competitors provide tax subsidies for exports. The U.S. originally responded with the "Domestic International Sales Corporation," or "DISC," law, which recently was invalidated by a GATT tribunal. We should revise DISC to make it GATT legal but assure that it continues to provide competitive tax incentives, especially for small businesses and agricultural exporters.
- Promoting the Use of Export Intermediaries.
Over 20,000 U.S. businesses produce products that would be competitive overseas but lack the resources to engage in sophisticated international transactions. Therefore, we should encourage the development of intermediaries that can help them export. Last year's "Export Trading Company Act" was a good start, but it should be amended to provide improved incentives.

- Subsidizing export financing. Our foreign competitors frequently subsidize export financing. We must respond by improving and expanding the export financing operations of the Export-Import Bank.

3. Adjusting to Economic Change

The new hyper-competitive international trade system constantly is shifting; in the U.S., this means that old industries may lag behind and new ones surge ahead. We should not try to prevent such shifts by erecting protectionist barriers. That would be futile; it also would be counterproductive, because it would encourage retaliation against our surging export industries. But we should facilitate rapid adjustment to economic shifts. Therefore, the Baucus Program includes programs to facilitate adjustment, including:

- Worker Adjustment. The Trade Adjustment Assistance Act expires this year. It should be reauthorized so that workers who lose their jobs to imports have a "cushion" to ease their economic hardship. More important, it should be revised to establish a practical, long-term retraining program to give these workers the skills they need to continue to make an important contribution to the economy.
- Industrial Adjustment. The Trade Act's "escape clause" authorizes the President to grant temporary import relief to industries threatened by sudden increases in imports. Such relief, however, has been ineffective. The escape clause should be revised to require industries seeking relief to devise an adjustment plan specifying how they will use the relief to adjust to foreign competition.

III. CONCLUSION

The sudden increase in the volume and importance of international trade has left America temporarily lagging behind. To regain our economic leadership, we must revise our policies to stress fair trade and aggressive competition.

The Baucus program would do this, by reforming exchange rates, reforming trade laws, engaging in measured retaliation, dismantling export barriers, promoting exports, and facilitating adjustment.

This "Baucus Trade Program," then, is a comprehensive approach to international trade. From this approach, an action plan can be drawn. That plan should have four components: primary legislative efforts, Montana technical assistance, bilateral projects, and other legislative efforts.

Primary Legislative Efforts. Our primary legislative effort should be to revise DISC. This is important to agriculture and small business and is treated in a separate memo that you have received.

Technical Assistance for Montana. International trade is a terribly complex business. Montana desperately needs technical assistance with the complexities. Therefore, we should organize a series of Commerce Department, State Department and Foreign Agricultural Service seminars and programs to provide technical assistance to Montanans. Possible events include:

- a conference on overcoming Japanese import barriers;
- a conference on use of the new Export Trading Company Act;
- a conference describing the trade assistance currently available in Montana;
- securing a Commerce Department "Export Excellence Award" for Montana.

Bilateral Projects. You always have been heavily involved in U.S./Japan and U.S./Canada trade. This involvement should continue and perhaps intensify. Possible specific efforts include:

- a "Japan project" in which we identify Japanese practices that have a major impact on Montana and articulate a strategy for reducing them. This strategy should include high-visibility events like direct negotiations with the Japanese, and should capitalize on your relationship with Senator Mansfield;
- a "Canada project" that uses your prominent position regarding U.S./Canadian relations to stress the issues especially important to Montana.

Other Legislative Efforts. We should move ahead with other legislative efforts:

--Sponsorship

- a resolution urging negotiations to revise the international monetary system to prevent currency manipulations;

- a bill to require the Fed to specifically address the question of how its monetary policies will affect exchange rates and hence trade;
- a bill revising the antidumping law and countervailing duty law;
- a bill "graduating" advanced nations from the GSP.

Cosponsorship With Significant Involvement:

- a bill (Cohen) [Mitchell] amending the Trade Act to assure that small businesses have access to relief;
- bills (Heinz) to revise the Export Administration Act and Foreign Corrupt Practices Act;
- a bill to reauthorize and revise the Trade Adjustment Assistance Act;
- a bill to revise the "Escape Clause" to require the development of a readjustment plan before import relief is granted;
- a bill (Roth) to establish a Department of Trade.